

AIS RISK CONSULTANTS, INC.

Consulting Actuaries • Insurance Advisors

4400 Route 9 South • Suite 1200 • Freehold, NJ 07728 • (732) 780-0330 • Fax (732) 780-2706

Date : April 6, 2005

To : Neil Ferstand, CTLA

From : Allan I. Schwartz

Re : Analysis of The Medical Protective Insurance Company Connecticut
Physicians and Surgeons Medical Malpractice Insurance Experience From 2000 to 2004

We have reviewed the Connecticut physicians and surgeons medical malpractice insurance experience for The Medical Protective Company and found that there was a very high level of profit during the period from 2000 to 2004.¹ The results of our analysis are contained in the enclosed graphs and summarized below.

The Medical Protective Company, during the period from 2000 to 2004, for Connecticut physicians and surgeons medical malpractice insurance had written premiums of \$27.2 million and paid losses of \$0.3 million.² That is, the paid losses were only about 1% of the written premium.

The Medical Protective Company, during the period from 2000 to 2004, for Connecticut physicians and surgeons medical malpractice insurance had earned premiums of \$24.7 million and incurred losses of \$11.9 million.³ That is, the incurred losses were only about 48% of the earned premium.⁴

¹ The figures in this analysis were obtained from the Annual Statement and Supplements that The Medical Protective Company files with the state regulatory insurance agencies.

² The use of written premiums and paid losses is appropriate for analyzing the cash flow associated with the business.

³ The use of earned premiums and incurred losses is appropriate for the matching of revenues and costs to analyze the profitability associated with the business.

⁴ Out of the \$11.9 million of incurred losses reported by The Medical Protective Company for Connecticut physicians and surgeons medical malpractice insurance, the vast majority is associated with incurred but not reported ("IBNR") reserves. The breakdown of the reported incurred losses of \$11.9 million is \$0.3 million for paid losses, \$4.5 million for case reserves and \$7.1 million for IBNR reserves.

The Medical Protective Company, during the period from 2000 to 2004, for Connecticut physicians and surgeons medical malpractice insurance had earned premiums of \$24.7 million and an insurance operating profit of \$7.4 million.⁵ That is, the insurance operating profit was about 30% of the earned premium.⁶ This is a very high level for the insurance operating profit.⁷

Please feel free to contact me if there is anything you would care to discuss.

⁵The Connecticut earned premiums and incurred losses used in calculating the operating profit were reported by The Medical Protective Company directly in its Annual Statement. In order to derive the values for other costs (i.e., claim defense, other adjusting expenses, commissions, other acquisition expenses, general expenses, premium taxes and miscellaneous taxes and fees) as well as other revenue (i.e., other income and investment income on reserves), a portion of the countrywide values reported by The Medical Protective Company was allocated to Connecticut.

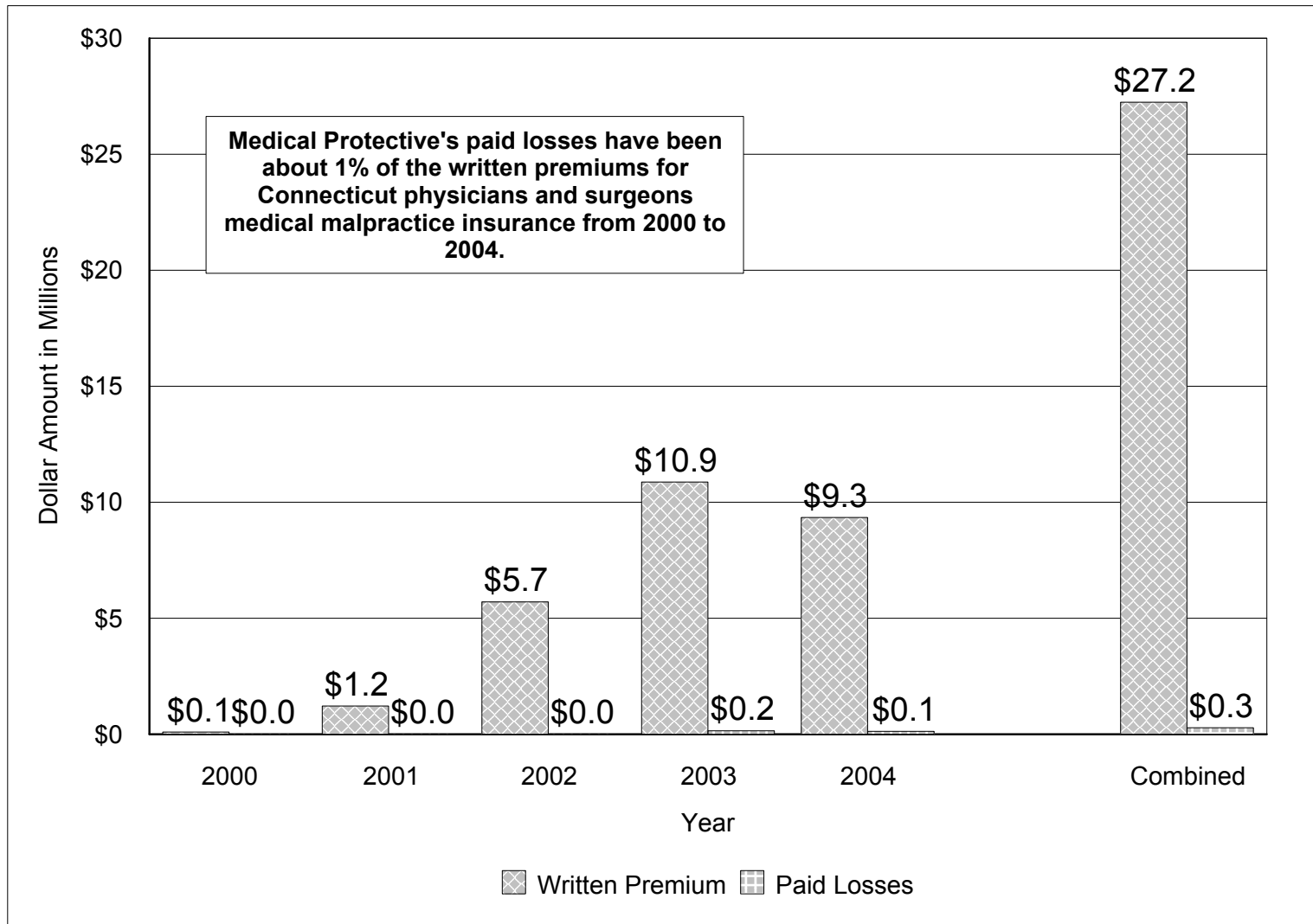
⁶ The insurance operating profit does not reflect investment income on capital and surplus. If the value of investment income on capital and surplus were included, the profit would be higher by about 4% of premium.

⁷ The profit ratio for Medical Protective during 2004 was lowered compared to earlier years, although still quite profitable, because of the very large increase in reserves booked by Medical Protective during 2004. The case reserves booked by Medical Protective increased by more than 1,000% during 2004 from \$0.4 million at the beginning of the year to \$4.5 million at the end of the year, and the IBNR reserves increased by about 75% during 2004 from \$4.0 million at the beginning of the year to \$7.1 million at the end of the year, while paid losses have remained flat totaling \$0.2 million from 2000 to 2003 combined and \$0.1 million in 2004. Furthermore, the pattern of increase in reserves during 2004 was somewhat unusual. About 80% of the reserve increase by Medical Protective was booked in the fourth quarter of 2004, after it was publicly revealed how high the profits had been for Medical Protective. In addition, the number of open claims increased by only about 20% from the beginning to the end of 2004. Given the wide disparity between the very large increase in reserves booked by Medical Protective compared to the essentially flat level of paid losses and more moderate increase in the number of open claims, along with the unusual timing of the reserve change, it is possible that the increase in reserves booked by Medical Protective during 2004 is more a reflection of Medical Protective trying to disguise the high level of profits in Connecticut as opposed to reflecting a real increase in the level of losses.

THE MEDICAL PROTECTIVE COMPANY

CONNECTICUT MEDICAL MALPRACTICE INSURANCE EXPERIENCE

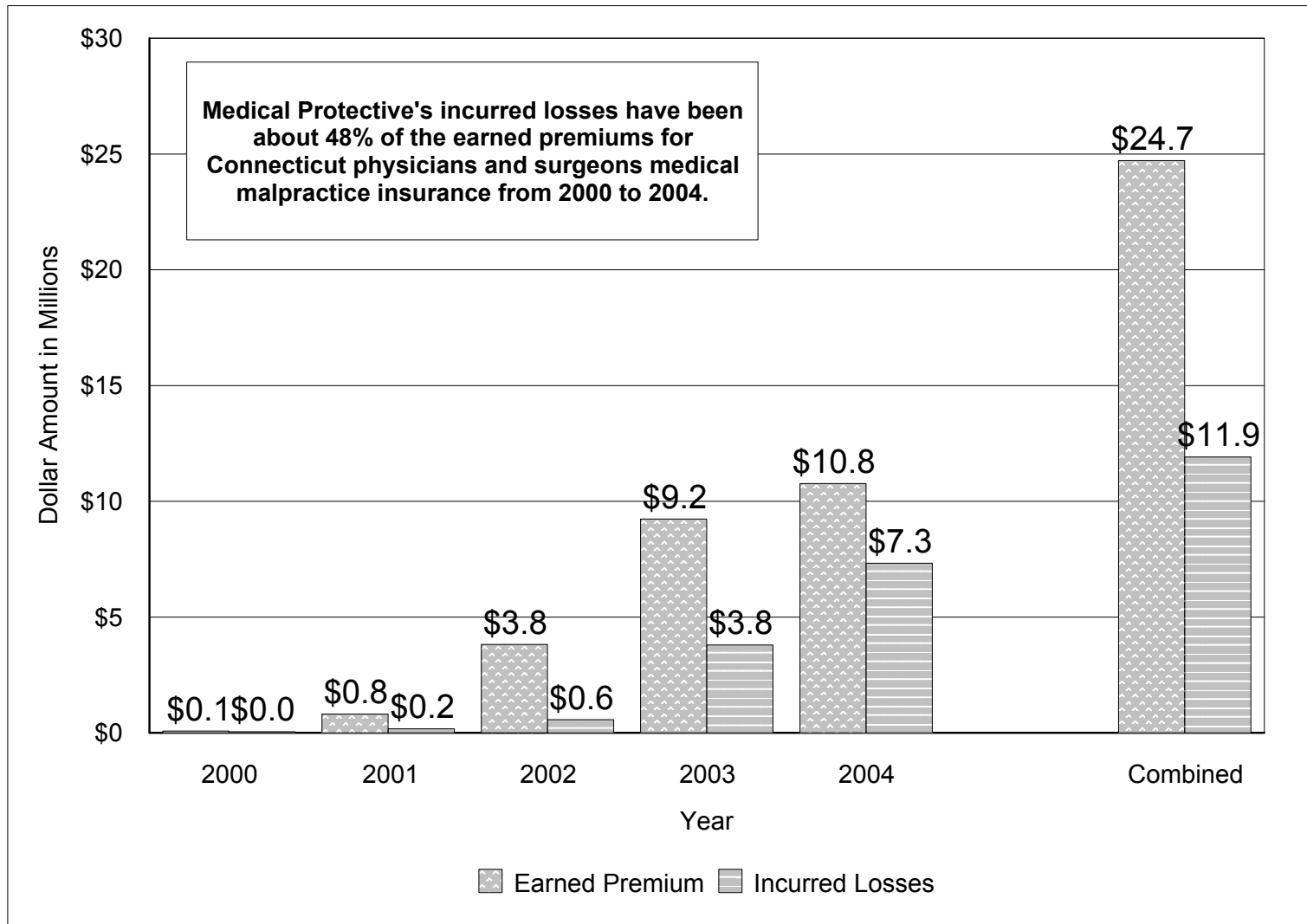
Written Premium and Paid Losses - Physicians and Surgeons



THE MEDICAL PROTECTIVE COMPANY

CONNECTICUT MEDICAL MALPRACTICE INSURANCE EXPERIENCE

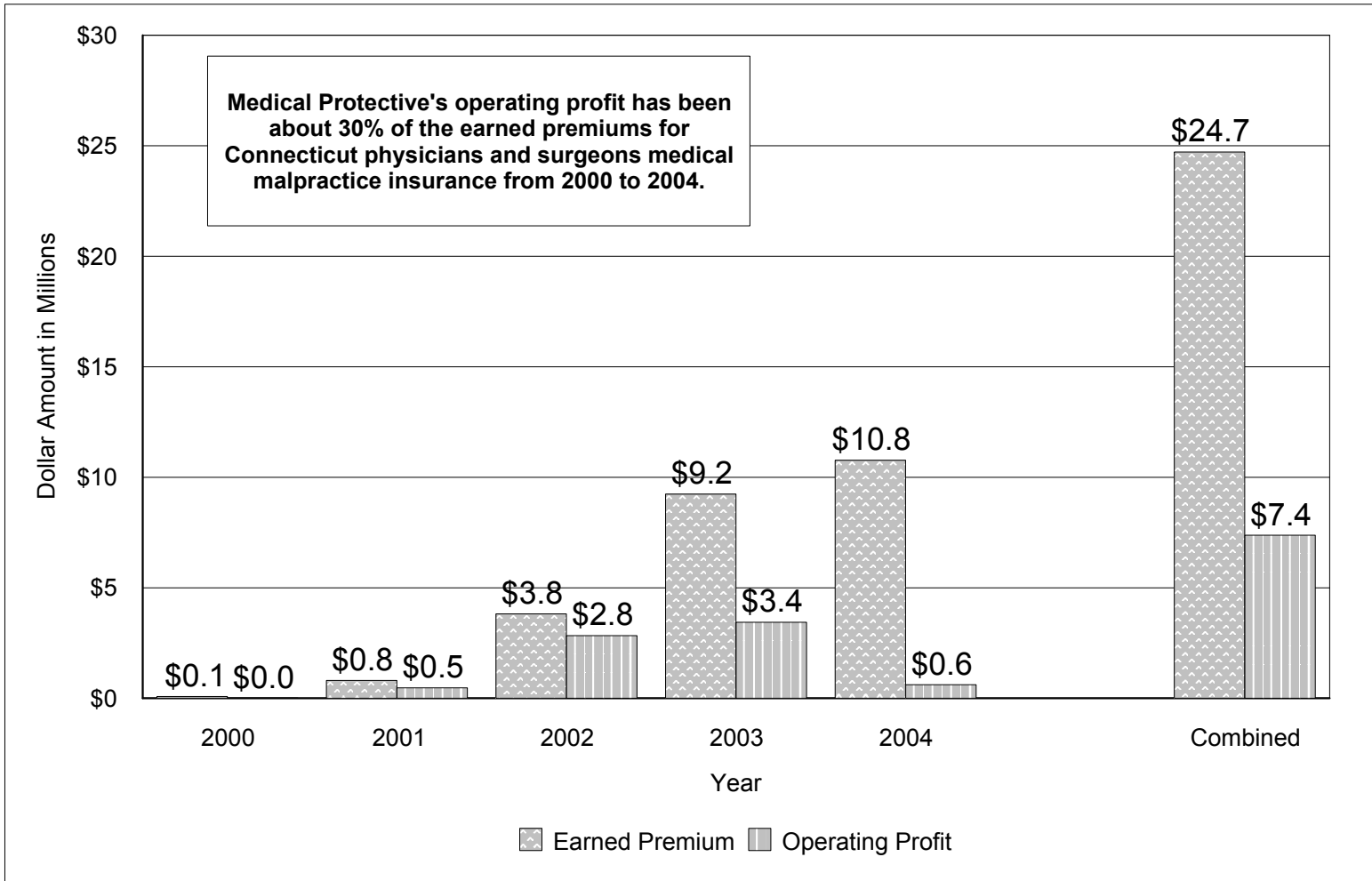
Earned Premium and Incurred Losses - Physicians and Surgeons



THE MEDICAL PROTECTIVE COMPANY

CONNECTICUT MEDICAL MALPRACTICE INSURANCE EXPERIENCE

Earned Premium and Operating Profit* - Physicians and Surgeons



* Operating profit is the sum of earned premiums, investment income and other income less all costs of losses, claim defense, other adjusting expenses, commissions, other acquisition expenses, general expenses, premium taxes and miscellaneous taxes and fees.